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Equity Investor Takes Aim at Vertical Integration: A Conversation With Bridge Investment Group’s Blake Peeper

Product specialization and vertical integration are the hallmarks of Bridge Investment Group. The firm not only invests in several different commercial real estate segments, but also operates property management divisions across its various asset classes.

With two seniors housing private equity funds, Bridge advanced its integration strategy last December with the acquisition of Somerby Senior Living, a seniors housing management company that operates a portfolio of nine seniors housing properties in the Southeast.

As plans unfold for the firm to leverage the Somerby operating platform, NIC’s chief economist Beth Mace recently had the opportunity to talk with Blake Peeper. He is deputy chief investment officer of Bridge Seniors Housing Fund Manager LLC, based in Orlando. What follows is a recap of their conversation.

Mace: Can you tell us about Bridge Investment Group?

Peeper: The principals of Bridge Investment Group LLC began in real estate in 1991 and became a nationally-respected property management firm. Then, launched their first discretionary fund in 2009 and became a registered investment advisor in 2011. We focus on value-add investing alongside property management with equity and debt strategies within private equity. Our hallmark is that we have specialized investment and property management teams across various asset classes. In total, Bridge has 2,600 employees and $15 billion of assets under management. We have 34,000 multifamily units, more than 10,000 seniors housing units, and 13 million square feet of office space across the country.

We launched the seniors housing team in 2013. The leadership team has an average of 20+ years of experience with transactions totaling more than $7 billion. Currently, Bridge has two private equity funds dedicated to seniors housing. We are actively investing, and we anticipate that we’ll be making multiple property acquisitions throughout 2019 and 2020.

Mace: What is your investment strategy?

Peeper: We invest in stabilized, value-add properties, and development opportunities, with clear investment criteria in each of those categories. Generally speaking, we focus on market quality, building quality, and operator quality and alignment. Our platform is set up to drive value for our investors, so we are comfortable with the risk of repositioning, capital improvements, and lease-up. We’re fairly long-term investors compared to other private equity firms, and we underwrite properties for 5- to 8-year hold periods.

Mace: What’s different about seniors housing compared to your other business lines?
**Peeper:** The biggest difference is that other Bridge verticals are fully integrated from an operating perspective. In seniors housing, we have integrated Somerby, but we also partner with other third-party operators to drive investment returns.

**Mace:** Do you invest in all seniors housing segments?

**Peeper:** We invest primarily in independent, assisted living, and memory care community types. The vast majority of our properties have combinations of two, if not all three, levels of care. We invested in some for-profit CCRCs in our first fund.

**Mace:** Recently, Bridge acquired Somerby Senior Living. Can you tell us why you were interested in Somerby?

**Peeper:** When we look at investment opportunities, we take into consideration the product, the markets, and the people. The Somerby acquisition checked the box on all three and was a unique opportunity to acquire a portfolio of nine highly-occupied, best-in-class properties within high barrier-to-entry markets and with a proven and scalable operator. We executed the transaction quickly in about 90 days. First and foremost, we were highly attracted to the real estate. The properties are leaders in their respective markets. Additionally, Somerby’s operating company was performing at a high level with 94% occupancy across the portfolio and a very high level of resident satisfaction.

The acquisition of the operating company has several benefits. It creates alignment between the owner and manager. We have found that when operators think like owners, culturally and structurally, it leads to quality performance. We see the acquisition and integration of Somerby into our fund management platform as a key to managing the risk and opportunities related to delivering care, understanding resident preferences, and developing best practices.

**Mace:** Do you own other operators?

**Peeper:** No.

**Mace:** Is Somerby part of your property management division?

**Peeper:** One of the things that differentiates Bridge is our product specialization and vertical integration in each asset category we are involved in. So, in the case of our multifamily group, for example, they manage all of the multifamily assets we own. The same is true for commercial office space. The world of seniors housing is different. We will have a vertically integrated property management company through Somerby, but it will not operate all of the properties we own. We are very committed to the space and will continue to grow with our current operating partners and seek new operating relationships throughout the country.

**Mace:** How much equity has Bridge invested in seniors housing since it was established?

**Peeper:** The seniors housing group has invested $1.15 billion of equity since 2014 and more than $400 million in the past 12 months.
**Mace:** What are your assets under management?

**Peepers:** Bridge Seniors Housing Fund Manager LLC has $3.6 billion of assets under management, including the addition of about $1 billion in the past 12 months.

**Mace:** How big is your team?

**Peepers:** We have 42 employees in our Orlando office dedicated to our seniors housing investment platform. The Somerby corporate staff in Birmingham has 22 people.

**Mace:** What’s your source of capital?

**Peepers:** We raise discretionary capital through multiple channels including sovereign wealth funds, public and private pension funds, family offices, and high-net-worth investors that span the globe.

**Mace:** You have an opportunity zone initiative. Is seniors housing a part of that?

**Peepers:** For Bridge, the opportunity zone initiative is a chance to leverage the in-place knowledge base across the Bridge verticals. Currently, the seniors vertical is actively supporting the OZONE team on potential seniors housing investment opportunities.

**Mace:** NIC is sponsoring a big study on middle market housing opportunities for middle income seniors. Would the opportunity zone be a good way to create a more affordable seniors housing product because of the tax benefits?

**Peepers:** No question. It’s an interesting idea.

**Mace:** From an operator’s standpoint, why is Bridge a good partner?

**Peepers:** We consider ourselves to be very supportive and relationship-oriented capital. Seniors housing operations is complex and challenging, and we feel our history in the sector and our emphasis on relationships helps to create an alignment of interests and good outcomes. Our capital is nimble, and we can grow with our operators through development and acquisitions. Furthermore, we can invest in single assets and portfolios.

**Mace:** How do you choose operating partners?

**Peepers:** First, we look for depth of experience and cultural alignment around resident care and satisfaction. We want partners with good systems and infrastructure, and a high level of focus on sales and marketing.

**Mace:** How do you align interests with your operating partners?

**Peepers:** We create alignment through various joint venture and incentive management structures. The variations of structures depend on the nature of the deal as well as the resources of our operating partners.
Mace: When do you turn down a deal opportunity? Any immediate red flags?

Peeper: We like to think we see our fair share of investment opportunities in the market. In the first quarter of this year alone, we tracked over 16,000 units across a variety of product and market quality and investment types. We typically turn down deals for reasons associated with market characteristics and the relevance of the building. We are highly focused on markets with deep demand and growth potential. We like buildings that have the physical characteristics to be relevant as new competition comes online.

Mace: What physical characteristics do you look for in a building?

Peeper: We look for purpose-built senior housing buildings that have the proper amount of amenity and activity space to create an environment where residents and associates can excel. As part of our review, we pay close attention to the dining experience, including the quality and number of dining options. We evaluate unit mix in terms of studios, one- and two-bedroom units and unit square footage, as well as unit mix from an acuity perspective. We also evaluate finish levels and amenity offerings relative to the competitive set and typically identify opportunities to renovate or upgrade.

Mace: Do you only invest in the U.S.?

Peeper: Yes.

Mace: Is there any locale that you avoid?

Peeper: We do not avoid specific regions. We think seniors housing is a regional, if not local, business. We acknowledge regional trends and have preferences on where we like to invest. However, our underwriting of local markets is the primary driver of where we choose to invest.

Mace: Any thoughts on how seniors housing has changed in the last five to ten years? Anything that makes you excited about the sector? Or worried?

Peeper: We find the business to be rewarding, especially when we are touring communities and see happy and engaged residents. There is nothing better than getting feedback from resident family members about how happy their loved one is at one of our communities. In our business, happy residents, happy/engaged associates, and happy families translate to highly occupied communities, which in turn results in favorable returns for our investors. We approach this business and our properties with a sense of pride in service, which includes capital reinvestment in the properties to support our operating partners in an effort to benefit the residents.

The industry has evolved in the past five-plus years. The investor base has expanded from public and private REITs to include a growing number of private equity groups. Meanwhile, cap rates have compressed, and we’re seeing pricing hit some unprecedented levels on a price per unit basis. From a product perspective, we have seen the design and programming evolve to be more residential and include amenities that enhance the resident experience. New supply in the past
Seniors Housing & Care Industry Calendar

May 2019

5/1-3  AHCA/NCAL Spring Conference for Multifacility CEOs and Senior Executive Leaders  Bluffton, SC
5/3  6th Annual Brain Ball – Alzheimer’s Association  Washington, DC
5/5-8  LTC 100 Leadership Conference  Naples, FL
5/8-9  Real Estate Research Institute (RERI) Conference  Chicago, IL
5/8  Build – the Future of Senior Living Development  Chicago, IL

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